

## Message Text

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ACTION XMB-04

INFO OCT-01 EA-07 ISO-00 OES-06 ERDA-05 SSO-00 INRE-00  
USIE-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 TRSE-00 OPIC-03 SP-02 LAB-04  
SIL-01 OMB-01 FEA-01 NRC-05 /063 W  
-----280908Z 025419 /12  
O 280802Z APR 77  
FM AMEMBASSY SEOUL  
TO SECSTATE WASHDC IMMEDIATE 3534

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PASS EXIMBANK

E.O. 11652: GDS  
TAGS: EFIN KS  
SUBJ: U.S. EXIMBANK FUNDING FOR COMBINED CYCLE POWER PLANTS  
  
REF: SEOUL 0946

1. KOREA ELECTRIC COMPANY (KECO) HAS INFORMED EMBASSY OF EXIMBANK REQUIREMENT THAT CREDIT NUMBER 6429 BE GUARANTEED BY THE "REPUBLIC OF KOREA" RATHER THAN THE KOREA DEVELOPMENT BANK. THAT REQUIREMENT STEMS FROM FEBRUARY 1977 UNDERSTANDING BETWEEN THE BANK AND THE ECONOMIC PLANNING BOARD (EPB) THAT THE GUARANTEE OF THE "ROK" COULD BE PROVIDED FOR KECO CREDITS IN ORDER TO AFFORD EXIMBANK THE HIGHEST PRIORITY OF PAYMENT AVAILABLE, AS WELL AS TO ANTICIPATE THE DAY WHEN KECO WILL GO TO THE INTERNATIONAL BOND MARKET FOR EXPANSION FUNDS. WE UNDERSTAND THAT IN CORRESPONDENCE FROM CHAIRMAN DUBRUL TO DEPUTY PRIME MINISTER NAM DUCK WOO DATED MARCH 25, 1977, THE BANK INDICATED ITS INTENTION TO APPLY SUCH A CONDITION TO ITS CREDITS FOR KECO AS WELL AS TO STIPULATE CERTAIN REFORMS SUCH AS AN AUTOMATIC FUEL COST ADJUSTMENT AND  
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REFORM OF RATE STRUCTURES.

2. WHILE KNOWLEDGEABLE EPB OFFICIALS WILL NOT BE AVAILABLE FOR CONSULTATION WITH EMBOFFS UNTIL MAY 2, KECO HAS INFORMED US OF THE IMPOSSIBILITY OF OBTAINING A ROK GUARANTEE FOR THIS CREDIT. THE USE OF SUCH A GUARANTEE REQUIRES APPROVAL OF THE NATIONAL ASSEMBLY,

WHICH TO OUR KNOWLEDGE IS UNLIKELY TO BE CONVENED WITHIN THE NEXT SEVERAL MONTHS. THEREFORE THE EFFECT OF THE EXIMBANK CONDITION WOULD BE TO PREVENT THE CONCLUSION OF THE CONTRACT WITH UNITED TECHNOLOGIES CORPORATION FOR THE 500 MW COMBINED CYCLE PLANTS. INASMUCH AS THE COMBINED CYCLE PROJECT WAS UNDERTAKEN ON A CRASH BASIS AND THE DECISION TO AWARD IT TO UT WAS MADE SOLELY ON THE BASIS OF THAT FIRM'S ASSURANCES THAT THE PROJECT WOULD BE PRODUCING POWER BY NOVEMBER 1977, ANY DELAY WOULD PARTICULARLY DISRUPT URGENTLY NEEDED POWER EXPANSION PLANS. EMBASS IS UNINFORMED WHETHER DELAY WOULD MAKE IT IMPOSSIBLE FOR UT TO DELIVER PROJECT AS SCHEDULED, HOWEVER WE UNDERSTAND THAT SUCH IS THE CASE. WHILE ROK GOVERNMENT AND EMBASSY APPRECIATE EXIM'S DESIRES THAT ITS LIENS APPEAR TO BE OF HIGHEST PRIORITY POSSIBLE, THERE IS IN FACT NO DISTINCTION WHICH CAN BE MADE IN ACTUALITY BETWEEN THE GUARANTEE OF KDB AND THAT OF ROKG ITSELF BECAUSE THEY ARE ONE AND THE SAME ORGANIZATION.

3. ACTION REQUESTED: THAT EXIMBANK BOARD BE REQUESTED TO POSTPONE APPLICATION OF ITS CONDITION THAT THIS CREDIT BE AFFORDED ROK GUARANTEE IN THE LIGHT OF KOREAN INABILITY TO CONCLUDE REQUIRED LEGAL PROCEDURES WITHIN THE URGENT TIME FRAME FOR THIS PROJECT.

4. EMBASSY COMMENT: EMBOFF WILL PRESS EPB FOR INFORMATION ON WHETHER THE PROPOSED TURNOVER IN KECO'S NUCLEAR SECTOR TO A "NUCLEAR POWER GENERATING CORPORATION" LIMITED OFFICIAL USE

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ATION" WOULD PROVIDE OPPORTUNITY TO CONVERT KECO'S EXISTING KDB GUARANTEE INTO ROK GUARANTEES. AS KECO'S REFORMS AND REORGANIZATIONS GO FOWARD, IT IS NOT YET CLEAR THAT THERE WILL BE A "NUCLEAR POWER GENERATING CORPORATION" SO THAT EXIMBANK MAY NOT ASSUME THAT AN OPPORTUNITY WILL DEVELOP IN SUCH A MANNER TO CONVERT GUARANTORS. IT SHOULD BE NOTED THAT THIS QUESTION HAS ARISEN SIMPLY BECAUSE IT WAS IMPOSSIBLE FOR MINISTER NAM AND EPB TO FORESEE THAT CONVOCAION OF NATIONAL ASSEMBLY WOULD BE DELAYED FOR A LENGTHY PERIOD. NO QUESTION OF BAD FAITH CAN ARISE WITH REGARD TO THEIR INTENTION TO COOPERATE WITH EXIMBANK'S CONDITIONS IN LETTER OF MARCH 25. EMBASSY BELIEVES THAT WHETHER OR NOT BUSINESS IS LOST BY AMERICAN FIRM, THERE WILL BE A PRICE TO BE PAID OVER THE LONG RUN SHOULD EXIMBANK BE UNABLE TO RESPOND TO THIS REQUEST. A LARGE PART OF THE KOREAN MANUFACTURING COMMUNITY ALREADY ASSUMES THAT UNCERTAINTY OF EXIMBANK SUPPORT AND DELAYS IN LOAN

PROCESSING ARE SUFFICIENT CAUSE FOR THEM SIMPLY TO  
SHOP FOR MAJOR EQUIPMENT PURCHASES IN OTHER COUNTRIES  
FROM WHICH OFFICIAL LOANS AND GUARANTEES ARE MUCH  
MORE QUICKLY AND READILY AVAILABLE. THE COMBINED  
CYCLE PROJECT IN THAT SENSE IS A BELLWETHER FOR THE RENEWAL OF  
KOREAN CONFIDENCE IN EXIMBANK SUPPORT FOR AMERICAN FIRMS.  
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## Message Attributes

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**Disposition Date:** 22 May 2009  
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**Enclosure:** DG ALTERED  
**Executive Order:** N/A  
**Errors:** N/A  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009